

Appendix to the Resolution of the Board  
of the National Bank of the Kyrgyz Republic  
December 13, 2017  
No. 2017-П-7/51-1-(ДКП)

**NATIONAL BANK  
OF THE KYRGYZ REPUBLIC**

**MAIN DIRECTIONS  
OF THE MONETARY POLICY  
FOR THE MEDIUM TERM**

**Bishkek  
December, 2017**

## **Main Directions of the Monetary Policy for the Medium Term**

### **Chapter 1. General Provisions**

This document determines major directions of the monetary policy of the National Bank of the Kyrgyz Republic (hereinafter referred to as the NBKR) for the medium term and serves as a basic document for the decision-making process while implementing monetary policy.

The monetary policy of the NBKR, as part of the overall economic policy carried out in the country, is aimed at ensuring macroeconomic stability. The National Bank carries out monetary policy in order to ensure price stability and to form favorable inflationary environment as one of the key elements of macroeconomic stability for the long-term sustainable economic development of the Kyrgyz Republic. The price stability is understood as dynamics of the general level of consumer prices in the medium term, which does not have significant effect on the economic decisions of the business entities.

### **Chapter 2. Purpose and Objectives of the Monetary Policy**

1. The main purpose of the monetary policy carried out by the NBKR is to achieve and maintain price stability. The benchmark of the monetary policy will be in maintaining inflation rate within the range of 5-7 percent in the medium-term period. By fixing the main goal of its activity, the NBKR sets the objective of a gradual transition to the inflation targeting regime in the medium term. Consumer price index will be used as an indicator of inflation rate, calculated and published by the National Statistics Committee of the Kyrgyz Republic.
2. The main objectives, contributing to achievement of the purpose of the NBKR activity, are to support purchasing power of the national currency, to provide efficiency, safety and reliability of the banking and payment system of the Kyrgyz Republic in order to promote long-term economic growth in the republic. Contribution to long-term economic growth in the republic is made in order to provide achievement of the purpose of the NBKR activity.
3. Development and implementation of the monetary policy will be focused on fulfillment of the objectives and purposes of the long-term national strategy for development of the country.
4. The NBKR will be focused on improving the monetary policy transmission mechanism as a necessary condition of transfer to the inflation rate targeting regime. The NBKR will continue improving efficiency and flexibility of the monetary instruments.
5. Development of the monetary policy will be focused on the time intervals (lags) in its impact on the key macroeconomic indicators of the country.
6. The high openness of the economy of the Kyrgyz Republic, dependence of the country of imports, unstable nature of the macroeconomic situation in the country, and possible

irrational inflationary expectations of the population can cause high sensitivity of price dynamics. In cases when such risks will appear and it will result in removal of inflation rate from its benchmark, the monetary policy measures will be focused on returning inflation rate to the target values.

### **Chapter 3. Basis of the Monetary Policy**

7. The inflation forecast will be an intermediate target of the monetary policy, which is based on the comprehensive analysis of the macroeconomic state of the Kyrgyz Republic and the external environment.
8. The NBKR policy rate as the main monetary instrument will be a benchmark for the funds value in the money market. The policy rate will be determined by the NBKR Board on a regular basis in accordance with the approved calendar posted on the official website of the NBKR.
9. The short-term interest rates of the money market will be the operational target of the monetary policy. Use of interest rates as the target for the monetary policy will allow the National Bank affecting the short-term market rates, thereby creating conditions for convergence of the rates in the money and lending market. The NBKR will determine the values of the interest rates in the corridor around the policy rate. The rate of the NBKR monetary instrument “overnight” deposit will be regarded as the lowest level of the interest rate corridor (floor), the rate of the NBKR monetary instrument “overnight” loan will be regarded as the highest level (cap).
10. The width of the interest rate corridor will be established in order to contribute to intensive activities in the interbank market. The values of the lowest and highest levels of the rates corridor will be regarded as the indicators of rates limits for the participants of the money market; it will allow them making transactions in the money market based on the rates within the interest rate corridor.
11. When implementing the monetary policy, the NBKR will use the whole range of monetary instruments, for example, open market operations, refinancing operations, including those with the “permanent access window” mechanism and “fine-tuning” operations. If necessary, existing instruments will be modified and new instruments will be introduced.
12. Development of the monetary policy will be carried out based on the macroeconomic forecasting and policy analysis system, as well as other systems, which allow using up-to-date methods of analysis and forecasting. Further work will continue improving the quality of the analytical framework and decision-making procedures for monetary policy by expanding and deepening the statistical and model apparatus, introducing the results of economic research into practice, taking into account the characteristics of the economy in the country.

#### **Chapter 4. Exchange Rate Policy and International Reserves**

13. The National Bank will continue following approved floating exchange rate regime. Currency interventions will be carried out in order to smooth sharp fluctuations of the exchange rate.
14. Management of the international reserves will be carried out in compliance with the major principles, which consist in maintaining liquidity and providing security of reserve assets. The NBKR will purchase gold for the national currency in the internal market in order to smooth effect of fluctuations of the foreign currencies exchange rate in the external markets, diversifications of risks that the value of the NBKR reserve assets will deteriorate, and accumulation of gold and foreign exchange reserves.

#### **Chapter 5. Cooperation with Executive Authorities**

15. The NBKR cooperates with the Government of the Kyrgyz Republic while implementing the monetary policy. Within the framework of this cooperation, the NBKR will participate in development of joint statements on economic policy, forecasts for social and economic development of the country, other joint documents related to the issues of the monetary policy.
16. The NBKR will carry out regular meetings of the Interagency Coordination Council with participation of the Ministry of Finance in order to provide coordinated implementation of the monetary and fiscal policies.

#### **Chapter 6. Communication Policy**

17. In development and implementation of the monetary policy the NBKR will carry out active communication policy in order to provide transparency and openness of the decision- making process, to form optimal market behavior of the business entities, including rational inflation expectations, as well as to submit information on the issues connected with the monetary policy to the general public.
18. Every quarter, the NBKR will publish the Monetary policy report, which comprises review of external and internal economic environment, assessment of economic prospects, trends and inflation forecasts.